

Corporate Social Responsibility as Innovation to Create Corporate Value: Case Study in Indonesia manufacturing industry

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Submission date: 01-Jan-2020 07:24AM (UTC+0700)

Submission ID: 1238894127

File name: Hersugondo2019.pdf.pdf (207.89K)

Word count: 4404

Character count: 24587



Corporate Social Responsibility as Innovation to Create Corporate Value: Case Study in Indonesia manufacturing industry

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The study investigates the affect of corporate social responsibility on the value of a company with the size of the organization as a moderating variable. The research focusing on the fabricating enterprises that registered on the Indonesian Stock Exchange (IDX) as a manufacturing company with influence / impact on the surrounding environment as a result of the activities of the company. Sample option is done by using purposive sampling method with the objective to obtain a representative sample in accordance with the criteria specified. The processed data underwent multiple linear regression analysis (multiple regression analysis). The Company Society Awareness rate is according to the GRI standards (Global Reporting Initiative), while the grade of the enterprise is using the measuring tool of Tobin's Q. The outcomes of research showed that the variables of Corporate Social Responsibility (CSR) has a remarkable positive impact on the grade of the organization while the variable size (size) of the enterprise acted as a moderating variable which giving an impact towards the relationship of CSR and corporate value.

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Keywords: Corporate Social Responsibility, organization size, the value of the company, and Tobin Q



Introduction

This paper deals with company's social opportunity ³ [CSR] (also recognise as corporate responsibility, corporate citizenship, responsible business and corporate social opportunity). CSR is a model of tasks run by commercial organizations in considering the account of effect of their jobs towards clients, distributors, workers, bondholders, public and also their surroundings. CSR requires organizations to abide by applicable regulation and also voluntarily taking efforts to improve the well-being of their labour, respective families also the local community and society at large. (Dsilva, B., 2008).

Dusuki, 2005 defined CSR as a form of trade institution principles towards society awareness basics, social lively processes, discretion, plans, controlled and perceptible results in which connected to corporate's society relations'. According to Jenkins, R. (2005), society awareness is plugged on moral and ethical notion, whereas public reactivity deals with managerial operations in regards to some reactions (arrangement, public forecasting, dealing on community reactions, handling in communities tasks, community-based program processes, community's organization plans), thus having a personality issues.

Company's Society Awareness is often mentioned as the main part of business virtuous. it means that the organization does not only have its obligations, but also economic and legal obligations towards other parties concerned (stakeholders) that reaches beyond the obligations above (economic and legal). Global Compact Initiative (2002) stated this had a knowledge of 3 factors (economic gain, human, earth), that purpose of trade are not just obtain profits, but the welfare condition of the man (human) as well, and maintain the continuity of the planet (Dahli and Siregar, 2008). The development of social programs of the commercial organization can be either of physical assistance, health care, community development outreach and scholarships program as well.

⁶ CSR can elaborate a scope of activities such as work together in partnership with local communities, socially involve in ³ sensitive matters, enhancing mutual benefit connection with workers, clients and their families, and joining in activities for environmental conservation and its sustainability. The concept of CSR grows in an organisation primarily as a result of corporate managers developing a greater sensitivity to the societies that they run and changing their trade action to fit the attitudes of the society to their business activities



(Clarkson, M. 1995). This approach can be understood as acting as a 'moral agent' and can be studied on moral value basis that the manager uses when making decisions in the firm, and in effect means them going beyond the narrow focus of the profit maxim.

The CSR consideration for corporations is heightened when in-country cultural clashes emerge through complaint, rally, spurn, industrial action and other uncooperative measures against a corporation or a specific industry. This often requires the corporation to enact a public 'code of conduct' to highlight that they are taking remedial changes to their practices and activities. The success of such initiatives, however, ultimately pivots on client expectations and the potential impact on the corporations reputation..

According Kemper (2013) companies can gain many benefits by developing CSR, especially when it is seen to be applied in earnest, which include: strengthening communication with stakeholders, promote improvement on an ongoing basis and in doing so mitigate risk and protect the company's reputation. Further CSR can generate competitive benefit in relation to capital, workers, suppliers, and its positioning within the market.

Dahli and Siregar (2008) studied the influence of commercial organization society awareness on corporate value in 2005 and used proprietary management as a controlled variable in Indonesian manufacture companies. Using this preliminary research to get the purpose of the research for inspection the enterprise society awareness for fifteen years hence and investigate how it affects the value of a company.

Literature Review and Hypothesis

As it already described in a previous section, Company social responsibility (CSR) is an approach system carried-out by enterprise to mingle into communal and environmental treat of own choice into their task execution and engagement with partners, resulted in overreach the liability of the enterprise in the sector of law. Corporate Society Awareness is in effect a commitment representing a business to accomodate the supportable economic development, by engaging with the workers and their representatives, their families, local communal group and the general public to elevate the quality of life in providing advantage both the commercial trade itself and its progress as well. (Andrikopoulos, 2014). Coupled with the concept of CSR in Indonesia is the notion of Sustainability Reporting (SR). SR



requires companies to announce about the impacts of fiscal, community and surroundings that their company's job have on the country (ACCA 2004).

To fully appreciate the concept of CSR, one has to appreciate that the main objective for company to raise the organization's value. Further, this value has to be positioned in terms of sustainable growth and in doing so intentness towards economic, social and environmental elements should be taken since that prop up the premise of continuing business activity. This comes to depict the interests of the economy stay in balance, the surroundings and the society in which it trades and operates.

The central logic of embracing CSR is that it will resonate with customers and investors and correspondingly will raise up the organization's value in terms of stock prices and corporate profits (earnings) (Kim 2014).

Based on discussions to this point, the first hypothesis would be as follows:

Theory 1: Enterprise Social Responsibility has ⁴positive impact on the organization value.

The scale of the company has an effect on the enterprise esteem of a company. By this we mean that if the company has a large total asset base, management has greater flexibility to explore and make major corporate decisions given the scope of this asset pool. Research conducted by Panda and Leepsa (2017) on the mutual connection between the sizes of the enterprise rate, where they examined three variables which assumed to have an effect on the value of the company. Robertson and Nicholson (1996) decide industry as a factor which influenced the type of implemented CSR program, given the organization's direction towards certain interest groups. Thus, pharmaceutical and chemical industries are concentrated on employees while consumer goods, tobacco and newspaper industries are focusing on consumers. Grif & Mahon (1997) suggested that research on the connection between Enterprise society Awareness and financial conduct should be bring off by industrial group of corporate, as companies in different industries concentrated on contrasted social problems, and the level of stakeholders' engagement is different as well.



Scale of the enterprise, related to the whole value of corporate assets, is a major benefit over small companies. Put simply where there is large corporate value there is a tendency to use more funds to support Corporate Social Responsibility. This is because large companies tend to have more stable conditions for issuing CSR funds. This stability factor is attractive to investors to purchase shares in the company and thus cause a rise in the bonds prices of the organization in a capital market (Jiraporn, 2014). The assessment of a company contains consideration for elements such as growth projections, insurance liabilities, forward estimates, and risk judgments.

Matten, D. & Moon, J. (2005) clarify the circumstances of research in this paper, there are three basic concepts which are considered in the light of corporate value:

- 1) is determined under a given time or a certain period in the life of the organization;
- 2) the grade is to be settled at the reasonable price;
- 3) and that this value assessment is not affected by groups of share buyers.

Commonly, there are a lot of ways and techniques are used within a company to determine value Dsilva, B. (2008), such as:

- a) the earning reach, methods of income, level ratio or price earnings ratio, profit project capitalization ways;
- b) the money stream procedural reachout which discounted cash flow way is included;
- c) dividend program among other ways of dividend growth;
- d) The assets procedure among other ways on valuation of assets;
- e) procedural reachout for merchandise prices, and
- f) the economic value added approach.

By contrast, several studies, for example Fama and French (1998), determine value over cost, stock returns, market value, the whole assets to determine the grade of the enterprise. According Dsilva, B. (2008) the ideal measurement ways to assess the performance of company (enterprise grade) which is at least free from the influence of each entity as policy is cash flow.

Stanwick clarified that the ¹enterprise value (EV) is an essential thought for investors, as it is a measure in assessing the company's the whole market value. In effect it is the price



that investors are willing to pay if the company is sold. As above mentioned, the final theory of the research is concluded as follows:

Theory 2: Enterprise Social Responsibility will enhance shareholder value in proportion to company size.

Research Methodology

The sample of the research is using 138 industrial organization registered on the Indonesian Share markets agency. Among these enterprises, the research had nominated 77 enterprises by implementing objectives data taking techniques with the categories as follow: (1) these enterprises were registered in the Indonesian Share Market Agency for a minimum one year prior to the overseas phase, 2003–2016; (2) and obtained positive rate of equity and reported their financial remarks based on domestic currency which is the Indonesian Rupiah (IDR); and (3) continuously registered for along 2003–2016. Thus, based on the abovementioned categories, there are only 77 commercial organizations that met the set definite rule for the sample of the research. As the research observed 77 enterprises along five years, therefore the definite number of observations done was 385. Sample selection is conducted by implementing objectives data taking techniques with the aim to gain a right-chosen data in according to categories as determined.

Variable Measurements

This study used three main independent variables: Corporate Social Responsibility, scale and Value. Information regarding Corporate Social Responsibility (X1) based on the standard GRI (Global Reporting Initiative). GRI consists of three focal disclosures, namely:

- **Fiscal**

The fiscal measurement of continuity awareness on the organization's impact on the fiscal situation of partners and its systems at domestic, regional, and international levels. Economic factors shown: the streams of capital among contrasted partners; and the major economic impacts the commercial organization throughout the public fiscal. Implementation activity is



paramount in understanding the institution and its continuity. But, this knowledge is normally already submitted in fiscal report. (www.globalreporting.org).

- Environment

Environmental measurement of supportability aware on the company's effect on life in natural scheme such as land, air, and water ecosystems. Environmental accomplishment factors related to income substances (materials, energy, waters) and outcomes (emissions / gas, river stream trash, dry waste / garbage). Furthermore, their ability includes their accomplishment towards biodiversity environmental rules to comply with, and other similar knowledge such as environmental trashes and the effect of their goods and aids (www.globalreporting.org).

- Social.

The social measurement is the dimension relating to continuity of an organization which had an impact in the social system. Social accomplishment indicators include employment, human rights, product responsibility and practice in social community.

Given the small number of companies in Indonesia which had reported their economics, social, and environment accomplishment in the form of continuity report, had made this study limited to obtain data that contained in the company's annual report. This is to prevent the gap between companies that already make their continuity report and companies that have not made it (Schuler, 2006).

CSR counting is done by using dummy variables, namely; for score 0: is given when the company did not divulge the items on the sequence of questions. While for score 1: is given when the company revealed the items on the sequence of questions.

CSR disclosure index based on the standard GRI (Global Reporting Initiative), as follows:

(a) Economic Accomplishment Indicators. (b) Environmental Accomplishment Indicators. (c) Labor Practices Accomplishment Indicators. (d) Human Rights Accomplishment Indicators. (e) Social Accomplishment Indicators. (f) Product Accomplishment Indicators.

the study used three classes as the indicators, namely economic, environmental and social accomplishment. Social accomplishment indicators involving four indicators comprising: the accomplishment indicators on workers and human rights as well..

Company Value



¹ Q ratio is a more accurate measure of how effectively utilizing the management resources of economic power. Research conducted Bramer (2006) by ¹ show the ratio Q can be applied to each company. According to White et al. (2002) Tobins'Q can be formulated as follows::

$$Q = \frac{EMV + D}{EBV + D}$$

Where is: Q = Value of Company; EMV = Equity Market Value, which is obtained by multiplying the closing share price (closing price) end of the year with the number of shares outstanding at the end of the year; EBV = Equity Book Value, which is derived from the difference between total assets with total liabilities, and D = the book value of total debt.

Analysis Model

The research employed the data board of 77 enterprises upon 2013 to 2016, the Generalized Least Square (GLS) calculation type is employed after acquired the regression board analysis. ⁵ In this matter, the observations are joined with both cross-sectional and time series data over several time periods (Gujarati, 2003). Hence, the common form of regression board type is explain below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_1 X_2 + e$$

Information: Y = Value Company; X₁ = Corporate Social Responsibility; X₂ = the size of the company; X₁ X₂ = Interactions between CSR and size; α = Constant; 1 - β₃ = Regression Coefficients, and e = error term, the error rate research estimator.

Findings

Analysis and discussion presented in this paper are based on observations of the independent variable or variables used moderating, using analytical models of Multiple Regression Analysis to determine if Enterprise Society Awareness had positive effect on the grade level of the organization with the scale of the organization as a moderating adjustable. The population used in the research are enterprises that registered on the Bonds Trade, with following motives: fabricating companies has more influence / impact towards surrounding environment as a result of activities of the organization.



¹ The coefficient of determination is used to determine how much the ability of independent variables in explaining the dependent variable. Determination value is determined by the value of Adjusted R Square.

Table 1. Coefficient of Determination equation 1

Model	Adjusted R Square
1	,110

- a. Predictors : (Constant), INDEKS CSR
b. Dependent Variable : TOBINS Q

Table 2. Coefficient of Determination equation 2

Model	Adjusted R Square
1	,182

- a. Predictors : (Constant), MODERASI, SIZE, INDEKS CSR
b. Dependent Variable : TOBINS Q
c.

Mentioned in Table 1. the first equation is recognise as the value of Adjusted R^2 is 0.110, it tells that 11% of the corporate rate variable which is proxied by Tobins Q can be detailed mentioned by INDEX CSR, and the remaining 81% is detailed mentioned by variables other than equity. On the second equation mentioned in Table 2. is recognise as values of R^2 is 0.182, it means that 18.2% of corporation that has a proxy variable value with Tobins Q can be further mentioned by CSR, commercial gain and interaction between CSR and commercial gain, and the remaining 81.8% is further mentioned by other variables outside of the prime equation.

The Empirical Findings and Discussion

Company managers and their shareholders have often been criticized in the media for their objective/ambitions to elevate the benefit for the company, regardless the impact of corporate strategy on a broad range of stakeholders (e.g. suppliers, environment, customers, employees, etc.) in order to meet the companies' objectives. However, some company managers have embraced CSR as an essential investment which responds to the company's objectives and adds the societal value as well, while others consider CSR a risk tom

shareholders' wealth. As Jenkins (2005) argued, a company's concentration should not only just on elevating profits or market share, but also become aware of its impacts and this allocate the company's resources efficiently ways that the organization value is hump up (e.g. brand value, image value, market value, etc.) in a context of dealing with a variety of importantly external society and community demands. Achieving this balance is the CSR strategy.

Based on the results of the regression analysis are presented in Table 3., obtained the regression coefficients for the variables of CSR at 1.620 and t value of 6.33 with a significance of 0.001 which is the significance value smaller than the significance level (α) = 5% or 0.05 or turns p- value 0,001 <0,05. These results show that Corporate Social Responsibility (CSR) and a significant positive effect on firm value. Thus H1 accepted although not significant.

Table 3. ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1,620	1	1,620	12,360	,001 ^a
Residual	11,92	5	,131		
Total	13,54	5			

a. Predictors: (Constant), INDEKS CSR

b. Dependent Variable: TOBINQ

The second theory of this research stated that Corporate Social Responsibility will increase the value of the company at the time of the company's profitability is high. Based on the analysis results obtained t value for moderating variables known at 0.762 with a significance of 0.0001 (Table 4). It caused the significance value less than 0.05 then the variable Size Company was able to affect the relationship between Corporate Social Responsibility with the value of the company. These results show that Corporate Social Responsibility can increase the value of the company at the time of the company's profitability is high.



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Table 4. ANOVA^b

Model	Sum of Square	Df	Mean Square	F	Sig.
1 Regression	2,705	2	1,353	1,230	,000 ^a
Residual	10,840	90	,120		
Total	13,545	92			

a. Predictors: (Constant), SIZE, INDEKS CSR

b. Dependent Variable: TOBINQ

Conclusion and Policy Implication

In this academic writing, we re-viewed the connection between CSR and corporate rate accomodating a series of awareness and problems as outlined in previous sections. Using models with firm fixed effects to resolve problems on the misspecification model, we observed whether and under what circumstances that CSR can add the rate towards the organizations. For the past two decades there has been indicated an adjustment and raise of attention regarding the link between the corporation' affects and final judgement as well as towards country, and citizen (Edenkamp, 2002). These had change programs that constrained many commercial firms that trying to involve in an extensive range of CSR implementations. Thus, the CSR establishment is growing and spread quickly around the globe and now there are many enterprises have acquire CSR. Due to these reasons, many study expertise has developed, in recent years, a huge amount of ways and frameworks in order to carry out a deep study on the magnitude and the rate of CSR in regards to company's capability.

Based on SPSS output, the results of research in equation 1 indicates that the variable CSR positive effect on firm value. Variable Corporate Social Responsibility (CSR) significant positive effect on firm value. This paper also find the organization scale variable as organizing variable affecting the relationship of CSR and corporate value. These outcomes indicated that the scale of CSR practices affecting the rise of the commercial organization grade.

The outcomes is in line with the hypothesis that corporation is not the only entity that works for its own sake but also have to give commercial advantage towards stakeholders. If



the corporation able to elevate the commercial advantage that received by relevant enterprise partners then it would definitely satisfied the enterprise partners as it would also increase the bondholders rate. The outcomes of the research are not in line research conducted by Nurlela & Islahuddin (2008) that mentioned about the CSR variable does not give any effect on the rate of the organization. Whereas in the equation 2 explained that CSR variables affect the rate of the enterprise. Since there were many processing companies in 2008 are quite low in allocating budget for CSR while the grade of gain obtained by the enterprise is relatively enormous. So that commercial gain cannot be as an evidence that it can influence the connection between CSR and firm rate.

Acknowledgement

The authors are indebted to the Faculty of Economics and Business of Diponegoro University because it allows this work as part of the Research Scheme to be the result of research funded by the DIPA fund of the Faculty of Economics and Business, Diponegoro University in fiscal year 2019

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